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DEPARTMENT OF AUDITOR-CONTROLLER**

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June 3, 2008

TO: Supervisor Yvonne B. Burke, Chair  
Supervisor Zev Yaroslavsky  
Supervisor Gloria Molina  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Wendy L. Watanabe*  
Acting Auditor-Controller

SUBJECT: **GOODWILL SOUTHERN CALIFORNIA CONTRACT – A COMMUNITY  
AND SENIOR SERVICES WORKFORCE INVESTMENT ACT  
PROGRAM PROVIDER**

We have conducted a program, fiscal and administrative contract review of Goodwill Southern California (Goodwill or Agency), a Community and Senior Services (CSS) Workforce Investment Act (WIA) Program provider.

**Background**

CSS contracts with Goodwill, a non-profit co-operative association to provide and operate the WIA Adult, Dislocated Worker, Adult Special Needs and Youth Programs. The WIA Adult, Dislocated Worker and Adult Special Needs Programs assist individuals obtain employment, retain their jobs and increase their earnings. The WIA Youth Program is a comprehensive training and employment program for in-school and out-of-school youth ages 14 to 21 years old. Goodwill's offices are located in the First and Fifth Districts.

Goodwill is compensated on a cost reimbursement basis and has a contract for \$995,153 for Fiscal Year (FY) 2007-08.

*"To Enrich Lives Through Effective and Caring Service"*

### **Purpose/Methodology**

The purpose of the review was to determine whether Goodwill complied with its FY 2007-08 contract terms and appropriately accounted for and spent WIA funds in providing services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed a number of the Agency's staff and clients.

### **Results of Review**

Generally, Goodwill maintained sufficient internal controls over its business operations. However, Goodwill billed CSS \$1,445 in unallowable and unsupported program expenditures.

In addition, Goodwill did not always comply with other WIA and County contract requirements. For example, Goodwill did not:

- Meet all the planned performance outcomes as outlined in the County contract, or accurately report the performance outcomes to the Workforce Investment Board for FY 2006-07.
- Establish operational Memorandum of Understandings (MOUs) as required by WIA guidelines for two (33%) of the seven partnering agencies and the other five MOUs did not contain all the required elements.
- Accurately report program activities on the Job Training Automation (JTA) system for four (10%) of the 40 participants sampled.
- Implement five (33%) of the 15 recommendations from our prior year's monitoring review.

Details of our review, along with recommendations for corrective action, are attached.

### **Review of Report**

We discussed our report with Goodwill and CSS on April 23, 2008. In their attached response, Goodwill indicated that they will reimburse CSS \$1,445 for the questioned costs. Goodwill also indicated that the procedures provided to us was not a WIA Policy and Procedures Manual but an informational packet given to individuals and agencies to provide background information on the program. However, the document the Agency provided was entitled WIA Program and Procedures. As indicated in our report, the manual and other documents provided did not identify specific procedures for administering the WIA Youth Program as required.

In addition, subsequent to our review, Goodwill provided CSS staff with updated MOUs. However, as of June 2, 2008, we had not received copies of the updated MOUs as indicated in their response.

We thank Goodwill for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

WLW:MMO:DC

Attachment

- c: William T Fujioka, Chief Executive Officer
- Cynthia Banks, Director, Department of Community and Senior Services
- Douglas H. Barr, President and CEO, Goodwill Southern California
- Teri Kelsall, Vice President of Workforce & Career Development, Goodwill Southern California
- James D. Hicken, Chair, Goodwill Southern California
- Public Information Office
- Audit Committee

**WORKFORCE INVESTMENT ACT PROGRAMS  
GOODWILL SOUTHERN CALIFORNIA  
FISCAL YEAR 2007-08**

**ELIGIBILITY**

**Objective**

Determine whether Goodwill Southern California (Goodwill or Agency) provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

**Verification**

We reviewed the case files for 40 (18%) (ten from each of the Programs: Adult, Dislocated Worker, Adult Special Needs and Youth) of the 225 participants that received services from July 2007 through February 2008 for documentation to confirm their eligibility for WIA services.

**Results**

Generally, Goodwill maintained appropriate documentation to support the eligibility of the 40 participants sampled.

**Recommendation**

**There are no recommendations for this section.**

**BILLED SERVICES/CLIENT VERIFICATION**

**Objective**

Determine whether Goodwill provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the participants received the billed services.

**Verification**

We reviewed the documentation contained in the case files for 40 (18%) participants that received services during July 2007 through February 2008. We also interviewed 14 participants.

**Results****Adult, Dislocated Worker and Adult Special Needs**

The six program participants interviewed stated that the services they received met their expectations. However, Goodwill did not accurately report the participants' program activities for three (10%) of the 30 participants sampled on the Job Training Automation (JTA) system. The JTA system is used by the State of California Employment Development Department and the Department of Labor to track WIA participant activities. This finding was also noted during the prior year's monitoring review. Subsequent to our review, Goodwill updated the JTA system to accurately reflect the program activities for one of the three participants.

**Youth**

The eight program participants/guardians interviewed stated that the services they received met their expectations. However, Goodwill did not accurately report the participant's program activities for one (10%) of the ten youth participants sampled on the JTA system. Goodwill also billed CSS \$15 for movie passes provided to two (20%) of the ten participants sampled as incentives. WIA guidelines prohibit the use of non-monetary incentives, such as movie passes, and federal regulations prohibit costs related to entertainment.

**Recommendations****Goodwill management:**

- 1. Ensure that staff accurately update the JTA system to reflect the participants' program activities.**
- 2. Prohibit the use of non-monetary incentives and bill CSS for allowable program expenditures.**

**PERFORMANCE OUTCOME REVIEW****Objective**

Determine whether Goodwill met the planned performance measures as outlined in the County contract and accurately reported the performance outcomes to the Workforce Investment Board (WIB). The performance outcomes included measuring the number of participants that enrolled in the program, exited the program, completed training and/or gained employment.

**Verification**

At the time of our review, the performance outcomes for Fiscal Year (FY) 2007-08 were not available. As such, we compared the reported FY 2006-07 actual performance outcomes to the planned performance measures outlined in the County contract and to the program activities reported on the JTA system. In addition, we reviewed the documentation contained in the case files for 40 (11%) of the 249 participants reported as having exited the program, completed training and/or placed in employment during FY 2006-07.

**Results**

Goodwill did not meet all the planned performance measures as outlined in the County contract, or accurately report the performance outcomes to the WIB for FY 2006-07. Specifically, Goodwill did not obtain at least 85% of their planned performance measures as required by the County contract for the WIA Dislocated Worker and WIA Youth programs.

**Recommendations****Goodwill management:**

3. **Ensure that planned performance measures are met as required by the County contract.**
4. **Ensure that the planned performance measures and actual performance outcomes are accurately reported to the WIB.**

**CASH/REVENUE****Objective**

Determine whether cash receipts and revenue are properly recorded in the Agency's records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

**Verification**

We interviewed Agency personnel and reviewed financial records. We also reviewed the Agency's December 2007 bank reconciliation.

**Results**

Goodwill maintained adequate internal controls to ensure that revenue is properly recorded and deposited in a timely manner.

**Recommendation**

**There are no recommendations for this section.**

**EXPENDITURES/PROCUREMENT****Objective**

Determine whether program related expenditures are allowable under the County contract, properly documented and accurately billed.

**Verification**

We interviewed Agency personnel, reviewed financial records and reviewed documentation to support 77 non-payroll expenditure transactions billed by the Agency for July, October and November 2007, totaling \$26,276.

**Results**

Goodwill overbilled CSS \$316 for unsupported and unallowable expenditures. Specifically, Goodwill:

- Inappropriately billed \$162 to the WIA Dislocated Worker Program for supportive services provided to a WIA Adult Program participant. According to State guidelines, the WIA Dislocated Worker and Adult funds are separate funds with different grant codes. As such, WIA Dislocated Worker funds are to be spent on dislocated worker participants and WIA Adult funds for adult participants, respectively. A similar finding was also noted during the prior year's monitoring review.
- Billed CSS \$154 in unallowable entertainment expenditures. Specifically, Goodwill provided movie tickets to the Youth participants as incentives. However, federal guidelines prohibit the use of federal funds for entertainment costs and WIA guidelines prohibit the use of non-monetary incentives, such as movie tickets. A similar finding was also noted during the prior year's monitoring review.

Subsequent to our review, Goodwill provided additional supporting documentation to support \$162 of the \$316 in unsupported and/or unallowable expenditures.

**Recommendations****Goodwill management:****5. Repay CSS \$154.**

- 6. Ensure that expenditures are accurately billed and allocated to the appropriate program.**
- 7. Ensure that expenditures charged to the WIA program are allowable under the County contract and WIA guidelines.**

### **INTERNAL CONTROLS/CONTRACT COMPLIANCE**

#### **Objective**

Determine whether the Agency maintained sufficient internal controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

#### **Verification**

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit and tested transactions in various non-cash areas such as expenditures, payroll and personnel.

#### **Results**

Goodwill maintained sufficient internal controls over its business operations. However, Goodwill's WIA program procedural manual did not identify specific procedures for administering the WIA Youth Program, such as how staff should screen and document the participants' eligibility and when staff should report the participants' program activities on the JTA system.

#### **Recommendation**

- 8. Goodwill management revise the WIA procedural manual to include procedures for administering the WIA programs, distribute to staff and ensure that staff comply with the program requirements.**

### **FIXED ASSETS AND EQUIPMENT**

#### **Objective**

Determine whether Goodwill's fixed assets and equipment purchased with WIA funds are used for the WIA programs and are safeguarded.



**Verification**

We interviewed Agency personnel and reviewed the Agency's equipment inventory listing. In addition, we performed an inventory and reviewed the usage of 21 items purchased with WIA funds.

**Results**

Goodwill used the equipment purchased with WIA funding for the WIA programs. In addition, the items were appropriately safeguarded. However, Goodwill's equipment inventory listing did not contain all the information, such as acquisition cost, serial number, property assignment, County property tag number, purchase order number and purchase date, as required.

**Recommendation**

9. Goodwill management ensure that the Agency's equipment inventory listing contains all the required information.

**PAYROLL AND PERSONNEL****Objective**

Determine whether payroll is appropriately charged to the WIA programs. In addition, determine whether personnel files are maintained as required.

**Verification**

We traced the payroll expenditures invoiced for 11 employees totaling \$27,651 for October 2007 to the Agency's payroll records and time reports. We also interviewed one staff and reviewed personnel files for five employees assigned to the WIA programs.

**Results**

Goodwill appropriately charged payroll expenditures to WIA programs. However, Goodwill did not conduct a criminal record clearance for one (20%) of the five employees sampled. A similar finding was also noted during the prior year's monitoring review.

Subsequent to our review, Goodwill obtained a criminal record clearance for the one employee.

**Recommendation**

- 10. Goodwill management obtain a criminal record clearance on all employees.**

**COST ALLOCATION PLAN/MEMORANDUM OF UNDERSTANDING****Objective**

Determine whether Goodwill's Cost Allocation Plan and operational Memorandum of Understanding (MOU) were prepared in compliance with WIA and County contract requirements. WIA guidelines require the One-Stop lead agency to establish an operational MOU with all partnering agencies participating in providing services through the One-Stop Center. In addition, determine whether the Agency used the plan and MOUs to appropriately allocate shared program expenditures.

**Verification**

We reviewed the Cost Allocation Plan and the operational MOUs, and reviewed a sample of expenditures incurred by the Agency in July, October and November 2007 to ensure that the expenditures were properly allocated to the Agency's programs.

**Results**

Goodwill's Cost Allocation Plan was prepared in compliance with the County contract. However, Goodwill did not establish operational MOUs as required by WIA guidelines for two (33%) of the seven partnering agencies and the five MOUs did not contain all the required elements. Specifically, the five MOUs did not identify specific services to be provided by each partnering agency, the MOU modification process, and methods for referral between programs and/or funding arrangements, otherwise known as the Resource Sharing Agreement (RSA). As such, we could not determine whether Goodwill appropriately applied the RSA to their shared program expenditures.

**Recommendations****Goodwill management:**

- 11. Establish operational MOUs with partnering agencies participating in providing services through the One-Stop Center as required.**
- 12. Ensure that shared expenditures are appropriately allocated according to the RSAs established within the MOUs.**

**CLOSE-OUT REVIEW****Objective**

Determine whether the Agency's Fiscal Year (FY) 2006-07 final close-out invoices for the WIA Adult, Dislocated Worker, Adult Special Needs and Youth programs reconciled to the Agency's financial accounting records.

**Verification**

We traced the Agency's FY 2006-07 general ledgers to the Agency's final close-out invoices for FY 2006-07. We also reviewed a sample of expenditures incurred in April, May, June, July and September 2007. The FY 2006-07 WIA Adult Special Needs program contract was extended through September 2007.

**Results**

Goodwill overbilled DCSS \$1,291. Specifically, Goodwill:

- Billed CSS \$650 for FY 2007-08 expenditures in FY 2006-07.
- Exceeded the WIA Adult Program budget by \$248 and the WIA Adult Special Needs Program budget by \$393. The County contract requires contractors to request for reimbursement for actual expenditures incurred during the program year, not to exceed budgeted amounts.

**Recommendations****Goodwill management:**

13. Repay CSS \$1,291.
14. Ensure that expenditures charged to the WIA programs are for costs incurred during the contract period.
15. Ensure that expenditures do not exceed budgeted amounts.

**PRIOR YEAR FOLLOW-UP****Objective**

Determine the status of the recommendations reported in the prior monitoring review completed by the Auditor-Controller.

**Verification**

We verified whether the outstanding recommendations from FY 2006-07 monitoring review were implemented. The report was issued on November 19, 2007.

**Results**

The prior year's monitoring report contained 15 recommendations. Goodwill implemented ten recommendations. As previously indicated, the findings related to recommendations 1, 6, 7 and 10 contained in this report were also noted during the prior year's monitoring review. The remaining recommendation required the Agency to implement the outstanding recommendations from the prior monitoring report. Goodwill management indicated that they will implement the outstanding recommendations by June 30, 2008.

**Recommendation**

16. Goodwill management implement the outstanding recommendations.



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May 9, 2008

Wendy L. Watanabe, Acting, Auditor-Controller  
Department of Auditor-Controller  
Countywide Contract Monitoring Division  
1000 S. Fremont Avenue, Suite #51  
Alhambra, CA 91803  
Attention: Yoon Bae

Dear Ms. Watanabe:

Thank you for your draft report of the findings related to your department's fiscal and administrative review of Goodwill Southern California ("Goodwill") WIA program in January 2008. We appreciate your comments to help us further improve our processes. Attached are our comments to your recommendations.

Please feel free to call Peter Cruz, *Grants and Contracts Manager* with any questions at (323)223-1211 ext 2385 or myself at (323) 539-2059. Again, thank you for your comments and we appreciate working with the auditors from your office.

Sincerely,

A handwritten signature in black ink, appearing to read "Lily".

**Lily N Yee**  
Controller

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**ELIGIBILITY**  
**No Recommendations**

**BILLED SERVICES/CLIENT VERIFICATION**

**Recommendation #1**

**Ensure that staff accurately updates the JTA system to reflect the participants' program activities.**

**Response #1**

Goodwill Program Managers and Directors will ensure the timely entry of activities into the JTA system on a monthly basis via round-table file reviews and review of JTA reports. In addition, Goodwill has increased employee training on the JTA system with staff.

**Recommendation #2**

**Ensure that incentives are non-monetary and bill CSS for allowable program expenditures.**

**Response #2**

Historically, incentives for youth such as movie tickets were considered allowable. A Federal newsletter from the Department of Health and Human Services (June 2006) noted that movie tickets were used as incentives for WIA youth. Additionally, based on our research and depending on the jurisdiction, interpretation of OMB 87 has varied and some Agencies consider movie tickets as an allowable incentive for Youth.

Since the County has clarified that movie tickets and food are considered entertainment and not allowable, Goodwill has modified its incentives procedures for youth. However, this limits the type of non-monetary incentives for youth that will work for the program. To ensure compliance, Goodwill would like to request for a list of acceptable non-monetary incentive not considered as entertainment.

**PERFORMANCE OUTCOME REVIEW**

**Recommendation #3**

**Ensure the planned performance measures are met as required by the County contract.**

**Response #3**

Goodwill had a performance measure of 41 for training completions for the Dislocated Worker program for FY 06-07 that was in error. This amount was much higher than similarly funded contractors and as such, we requested for an amendment several times with CSS management. We were informed that this goal could not be changed. The Goodwill WSC -

Central San Gabriel Valley site did complete 24 trainings for the year which is substantial given the size and the contract amount. In addition, this is higher than similarly funded contractors and we believe that the measurement goal that was made in error is unrealistic. As such, Goodwill disagrees with the Dislocated Worker finding but agrees with the finding for the Youth program. Goodwill Managers and Directors will monitor Center performance monthly to ensure planned outcomes are met by the end of each contract quarterly period.

**Recommendation #4**

**Ensure that planned performance measures and actual performance outcomes are accurately reported to the WIB.**

**Response #4**

Goodwill Program Managers and Directors will monitor Center performance monthly to ensure planned outcomes are met by the end of each contract quarterly period. This will be accomplished via utilization of up to date JTA reports and internal tracking documents to ensure that the performance is being reflected accurately and that JTA Data entry is current.

**CASH/REVENUE**

**No Recommendations**

**EXPENDITURES/PROCUREMENT**

**Recommendation #5**

**Repay CSS \$154.**

**Response #5**

Goodwill agrees to repay \$154 for the movie tickets. Please also see Response #2 above.

**Recommendation #6**

**Ensure that expenditures are accurately billed and allocated to the appropriate program.**

**Response #6**

Training has been implemented for program staff to prevent this issue. Goodwill Grants and Contracts Department will continue to audit supportive services reimbursements to ensure correct coding to the program.

**Recommendation #7**

**Ensure that expenditures charged to the WIA program are allowable under the County contract and WIA guidelines.**

**Response #7**

See Response #2 regarding the use of movie tickets for non-monetary incentives.

**INTERNAL CONTROLS/CONTRACT COMPLIANCE**

**Recommendation #8**

**Revise the WIA procedural manual to include procedures for administering the WIA programs, distribute to staff and ensure that staff complies with program requirements.**

**Response #8**

As communicated, Goodwill disagrees with the recommendation noted above. The document given to the auditor by the Program Manager is not a Policy and Procedures Manual. This document is used as an informational packet given to individuals and agencies to provide background information on the program. To comply with WIA eligibility, Goodwill utilizes a checklist for all WIA admissions as its procedural manual and this was provided to the auditor. With no findings under eligibility, Goodwill has demonstrated its ability to comply with WIA eligibility standards.

**FIXED ASSETS AND EQUIPMENT**

**Recommendation #9**

**Goodwill management ensures that the Agency's equipment inventory listing contains all the required information.**

**Response #9**

Inventory of the Central San Gabriel Valley WSC was transferred from Career Partners when Goodwill first acquired the contract from that location. In the transfer process, the information which the County requires regarding the inventory was not provided to Goodwill. This was previously communicated in previous audits, and attempts were made to find the information without success.

In addition, a majority of the equipment is not being utilized and Goodwill will initiate the disposal or return process with the County.

**PAYROLL AND PERSONNEL**

**Recommendation #10**

**Goodwill management obtains a criminal record clearance on all employees.**

**Response #10**

Goodwill's HR policies are (1) Basic criminal background checks are done for all "standard" level positions, such as Management, Professional, Administrative, Clerical, etc. Livescan is run for all WCD positions. Livescan is a fingerprint background search through the Department of Justice (DOJ). Retail "entry-level" positions, such as Retail Clerk, Retail Stock Clerk, Merchandise Processor, ADC Attendant do not require criminal background checks, unless a conviction is disclosed. If a candidate discloses a conviction, a criminal background check becomes part of the screening of the new hire.

The employee in question is missing the background check in their files. Goodwill is reviewing all HR procedures to ensure future compliance and documentation.



**COST ALLOCATION PLAN/MEMORANDUM OF UNDERSTANDING**

**Recommendation #11**

**Establish WIA compliant operational MOUs with partnering agencies participating in providing services through the One-Stop Center as required.**

**Response #11**

Goodwill at Central San Gabriel Valley WorkSource has operational MOU/RSA with all existing mandatory partner agencies. We are unable to obtain signatures for two of these: EDD and DPSS. This is the same issue as with other agencies. Subsequent to the program monitoring, RSA were completed and provided to County staff.

**Recommendation #12**

**Ensure that shared expenditures are appropriately allocated according to the RSAs established within the MOUs.**

**Response #12**

Shared expenses delineated in the operational RSA were completed with assistance from County staff subsequent to this program monitoring. Goodwill has not received any additional information that these are still not adequate or complete.

**CLOSE-OUT REVIEW**

**Recommendation #13**

**Repay CSS \$1,291.**

**Response #13**

Goodwill will reimburse the \$1,291.

**Recommendation #14**

**Ensure that expenditures charged to the WIA programs are for costs incurred during the contract period.**

**Response #14**

The Grants and Contracts Department will ensure all program costs are done the correct year.

**Recommendation #15**

**Ensure that expenditures do not exceed budgeted amounts.**

**Response #15**

Goodwill has implemented stronger review procedures to ensure that the expenditures do not exceed budgeted amounts.

**Recommendation #16**

Goodwill management implements the outstanding recommendations.

**Response #16**

See responses to #1, #2, #6, #7, #10.